

Message Text

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ACTION EUR-12

INFO OCT-01 EA-07 ISO-00 CIAE-00 DODE-00 PM-04 H-02 INR-07

L-03 NSAE-00 NSC-05 PA-01 PRS-01 SP-02 SS-15 USIA-06

AID-05 COME-00 EB-07 FRB-03 TRSE-00 XMB-02 OPIC-03

CIEP-01 LAB-04 SIL-01 OMB-01 IO-11 SAJ-01 ACDA-05

/110 W

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R 121600Z FEB 76

FM AMEMBASSY MOSCOW

TO SECSTATE WASHDC 9860

INFO AMCONSUL HONG KONG

USMISSION NATO

AMCONSUL LENINGRAD

USLO PEKING

AMEMBASSY SEOUL

AMEMBASSY TOKYO

CINPAC

C O N F I D E N T I A L MOSCOW 2167

E.O. 11652: GDS

SUBJ: SOVIET-NORTH KOREAN ECONOMICS RELATIONS

REF: MOSCOW 1568 (NOTAL)

1. SUMMARY -- A RECENTLY CONCLUDED FIVE-YEAR SOVIET-NORTH KOREAN TRADE AGREEMENT CALLS FOR AN INCREASE OF APPROXIMATELY 40 PERCENT ABOVE 1971-1975 LEVELS. SOVIET PRESS REPORTING DESCRIBES THE USSR AS NORTH KOREA'S "MAIN TRADING PARTNER" AND EMPHASIZES THE IMPORTANCE OF SOVIET AID PROJECTS WHICH ARE NOW SAID TO NUMBER ABOUT 30 IN ADDITION TO 50 EARLIER PROJECTS. MENTION IS MADE OF NORTH KOREAN LABOR PREPARING TIMBER IN Khabarovsk REGION FOR EXPORT TO NORTH KOREA, AND ALSO WORKING IN A JOINT SOVIET-NORTH KOREAN WOOD PROCESSING PLANT IN THIS AREA-- THE FIRST PRESS REPORTS OF NORTH KOREAN WORKERS ON SOVIET
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TERRITORY THAT THE EMBASSY HAS NOTED. NOT UNEXPECTEDLY, THERE IS

NO MENTION OF NORTH KOREA'S CHRONIC TRADE DEFICITS WITH THE USSR, ITS DEFAULT ON INDEBTEDNESS TO WESTERN COUNTRIES, AND A REPORTED FIVE-YEAR MORATORIUM ON REPAYMENT OF DEBTS OWED TO THE USSR. END SUMMARY.

2. SOVIET PRESS (FEBRUARY 10/11) HAS PUBLISHED REPORTS OF SIGNATURE IN MOSCOW FEBRUARY 9 OF FIVE-YEAR (1976-1980) INTER-GOVERNMENTAL SOVIET-NORTH KOREAN TRADE AND PAYMENTS AGREEMENT. DELEGATIONS WERE LED BY SOVIET DEPUTY CHAIRMAN OF COUNCIL OF MINISTERS I.V. ARKHIPOV AND (PHONETIC) NORTH KOREAN DEPUTY PREMIER OF ADMINISTRATIVE COUNCIL KON DIN TKHE (POSSIBLY MINISTER OF EXTERNAL ECONOMIC AFFAIRS KONG CHIN-TAE). BOTH DELEGATIONS REPORTEDLY PLEASED THAT AGREEMENT WILL PERMIT "FURTHER STRENGTHENING OF TRADITIONAL RELATIONS OF FRATERNAL FRIENDSHIP AND COOPERATION" BETWEEN USSR AND NORTH KOREA.

3. SOVIET ECONOMIC PRESS (TASS VESTNIK) HAS PROVIDED FOLLOWING ADDITIONAL DETAILS WHICH SUPPLEMENT INFORMATION PROVIDED RECENTLY BY SOVIET MFA FIRST FAR EASTERN DIVISION CHIEF KAPITSA (REFTEL, PARA 5) ON SOVIET CREDITS FOR DEVELOPMENT PROJECTS AND FIVE-YEAR MORATORIUM ON DEBT REPAYMENT:

(A) BILATERAL TRADE IS EXPECTED IN INCREASE BY ABOUT 40 PERCENT OVER 1971-75 LEVEL;

(B) THE SOVIET UNION IS THE MAIN (GLAVNIY) TRADING PARTNER OF THE NKDP AND SOVIET EXPORTS ACCOUNT FOR A SIGNIFICANT PART OF NORTH KOREAN IMPORTS OF MACHINERY AND EQUIPMENT, RAW MATERIALS AND FUEL:

(C) ENTERPRISES CONSTRUCTED IN NORTH KOREA UNDER SOVIET AID AGREEMENTS PROVIDE MORE THAN 50 PERCENT OF NORTH KOREA'S ELECTRIC ENERGY, 16 PERCENT OF ITS PIG IRON, 100 PERCENT OF ITS TEXTILES;

(D) THE USSR HAS PARTICIPATED IN THE CONSTRUCTION OR MODERNIZATION OF MORE THAN 50 FACTORIES, PLANTS, ELECTRIC POWER STATIONS AND OTHER PROJECTS IN NORTH KOREA. THIS ASSISTANCE HAS NOW EXTENDED TO ABOUT
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30 MORE INDUSTRIAL ENTERPRISES. THE NEW PROJECTS INCLUDE AN OIL REFINING PLANT AT UNDI WITH AN ANNUAL CAPACITY OF TWO MILLION TONS, A BEARING PLANT WITH AN ANNUAL PRODUCTION OF 13 MILLION BALL AND ROLLER BEARINGS PER YEAR, A METALLURGICAL PLANT PRODUCING ABOUT ONE MILLION TONS OF STEEL PER YEAR IN SHEETS;

(E) THE USSR IS ALSO ASSISTING IN TRANSPORT DEVELOPMENT

IN NORTH KOREA THROUGH THE DELIVERY OF DIESEL
LOCOMOTIVES AND ASSISTANCE IN THE CONSTRUCTION OF A
RAILWAY CAR PLANT.

(F) BILATERAL COOPERATION IN THE TIMBER INDUSTRY
CONSISTS OF THE PREPARATION OF TIMBER NEEDED BY
THE NKDP BY KOREAN WORKERS "ON THE TERRITORY OF
KHABAROVSK KRAY (REGION)." CONSTRUCTION OF WOOD
PROCESSING INDUSTRY ENTERPRISES HAS ALSO BEGUN IN THIS
REGION ON THE PRINCIPLE OF "JOINT PARTICIPATION."

4. COMMENT -- AS MIGHT BE EXPECTED, ASIDE FROM THE DRUMBEATING
ABOUT INCREASED TRADE AND THE VALUE OF SOVIET AID PROJECTS, THERE
IS NO RPT NO MENTION OF NORTH KOREA'S CHRONIC -- 20 TO 40
MILLION RUBLES PER YEAR -- TRADE DEFICIT WITH THE SOVIETS AS
REVEALED BY KAPISTA (REFTEL), NOR IS THERE ANY WORD OF NORTH
KOREA'S SERIOUS DEFAULT ON INDEBTEDNESS TO THE INDUSTRIAL WEST.
THE MENTION OF NORTH KOREAN LABOR WORKING ON TIMBER PROJECTS IN
THE SOVIET FAR EASTERN REGIONS IS THE FIRST REFERENCE TO THIS FACT
THAT THE EMBASSY HAS NOTED IN THE SOVIET PRESS.
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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: TRADE AGREEMENTS, FIVE YEAR PLAN
Control Number: n/a
Copy: SINGLE
Draft Date: 12 FEB 1976
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: coburnhl
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1976MOSCOW02167
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Film Number: D760054-0904
From: MOSCOW
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1976/newtext/t19760255/aaaabwhs.tel
Line Count: 136
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EUR
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: 76 MOSCOW 1568
Review Action: RELEASED, APPROVED
Review Authority: coburnhl
Review Comment: n/a
Review Content Flags:
Review Date: 06 MAY 2004
Review Event:
Review Exemptions: n/a
Review History: RELEASED <06 MAY 2004 by BoyleJA>; APPROVED <31 AUG 2004 by coburnhl>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
04 MAY 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: SOVIET-NORTH KOREAN ECONOMICS RELATIONS
TAGS: PFOR, ETRD, KN, UR
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006